

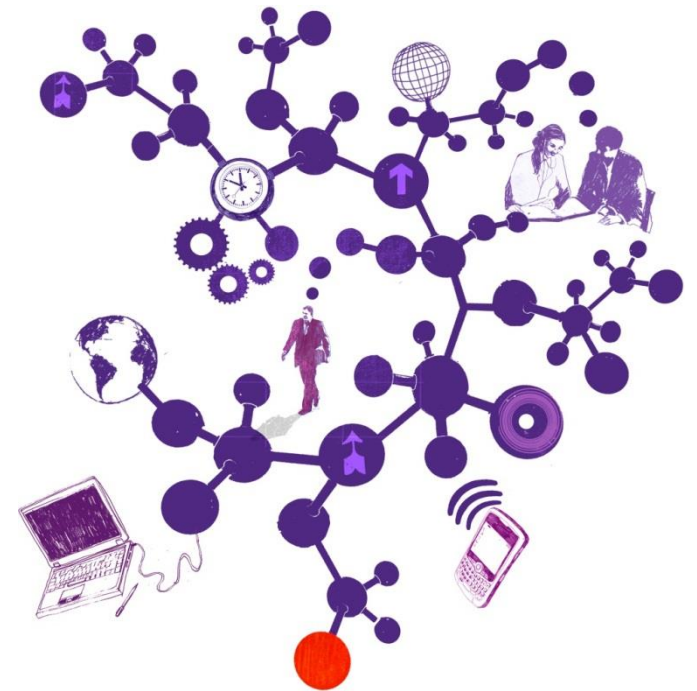
# Audit Committee Update for Gloucestershire Police and Crime Commissioner and Chief Constable

**Year ended 31 March 2014**

12 June 2014

Liz Cave  
Engagement Lead  
T 0117 305 7885  
E [liz.a.cave@uk.gt.com](mailto:liz.a.cave@uk.gt.com)

Kevin Henderson  
Manager  
T 0117 305 7873  
E [kevin.j.henderson@uk.gt.com](mailto:kevin.j.henderson@uk.gt.com)



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# Introduction

This paper provides the Audit Committee with a report on progress in delivering our responsibilities as your external auditors. The paper also includes:

- a summary of emerging national issues and developments that may be relevant to you; and
- a number of questions in respect of these emerging issues which the Committee may wish to consider.

Members of the Audit Committee can find further useful material on our website [www.grant-thornton.co.uk](http://www.grant-thornton.co.uk), where we have a section dedicated to our work in the public sector (<http://www.grant-thornton.co.uk/en/Services/Public-Sector/>). Here you can download copies of our publications including:

- Working in tandem, local government governance review 2014, our third annual review, assessing local authority governance, highlighting areas for improvement and posing questions to help assess the strength of current arrangements
- 2016 tipping point? Challenging the current, summary findings from our third year of financial health checks of English local authorities
- Local Government Pension Schemes Governance Review, a review of current practice, best case examples and useful questions to assess governance strengths
- Developing picture, our first national report, which evaluates how the sector is responding to the Police Reform and Social Responsibility Act 2011 (PRSRA).

If you would like further information on any items in this briefing, or would like to register with Grant Thornton to receive regular email updates on issues that are of interest to you, please contact either your Engagement Lead or Audit Manager.

Liz Cave Engagement Lead T 0117 305 7885 M 07880 456128 [liz.a.cave@uk.gt.com](mailto:liz.a.cave@uk.gt.com)

Kevin Henderson Audit Manager T 0117 305 7873 M 07880 456132 [kevin.j.henderson@uk.gt.com](mailto:kevin.j.henderson@uk.gt.com)

# Progress at 12 June 2014

Work	Planned date	Complete?	Comments
<b>2013-14 Accounts Audit Plan</b> We are required to issue a detailed accounts audit plan to the Police and Crime Commissioner and the Chief Constable setting out our proposed approach in order to give an opinion on the Police and Crime Commissioner's (PCC) financial statements and the Chief Constable's 2013-14 financial statements.	April 2014	Yes	Audit plan presented at the March meeting
<b>Interim accounts audit</b> Our interim fieldwork visit includes: <ul style="list-style-type: none"> <li>• updating our review of the PCC's and Chief Constable's control environments</li> <li>• updating our understanding of financial systems</li> <li>• review of Internal Audit reports on core financial systems</li> <li>• early work on emerging accounting issues</li> <li>• early substantive testing</li> <li>• proposed Value for Money conclusion.</li> </ul>	January to March 2014	Yes	No issues have been identified that need to be brought to the Committee's attention.
<b>2013-14 final accounts audit</b> Including: <ul style="list-style-type: none"> <li>• audit of the 2013-14 financial statements</li> <li>• proposed opinion on the PCC's financial statements and the Chief Constable's financial statements</li> <li>• proposed Value for Money conclusion.</li> </ul>	July to September 2014	Not yet due	

# Progress at 12 June 2014

Work	Planned date	Complete?	Comments
<b>Value for Money (VfM) conclusion</b> The scope of our work to inform the 2013/14 VfM conclusion comprises: <ul style="list-style-type: none"><li>• Key indicators of financial performance</li><li>• Strategic financial planning</li><li>• Financial governance</li><li>• Financial control</li><li>• Prioritising resources</li><li>• Improving efficiency and productivity</li><li>• Management of natural resources</li></ul>	January to August 2014	Not yet due	Work is in progress, but minimal work is being undertaken until the completion of the HMIC review, so as to minimise the risk of duplication of work.
<b>Other areas of work</b> Transparency report			Report sent to the Audit Committee members in February.

# Understanding your accounts – member guidance

## Accounting and audit issues

### Guide to local authority accounts

Police audit committee members are not expected to be financial experts, but they are responsible for reviewing the accounts on behalf of the Chief Constable and Police and Crime Commissioner. However, the financial statements are complex and can be difficult to understand. We have prepared a guide for audit committee members to use as part of their review of the financial statements. It explains the key features of the primary statements and notes that make up a set of financial statements. It also includes key challenge questions to help members assess whether the financial statements show a true and fair view of the Police and Crime Commissioner's and Chief Constable's financial performance and financial position.

The guide considers the :

- explanatory foreword – which should include an explanation of key events and their effect on the financial statements
- annual governance statement – providing a clear sense of the risks facing the Chief Constable and Police and Crime Commissioner and the controls in place to manage them
- movement in reserves statement – showing net worth and spending power
- comprehensive income and expenditure statement – reporting on the year's financial performance and whether operations resulted in surplus or deficit
- balance sheet – a 'snapshot' of the Chief Constable's and Police and Crime Commissioner's financial position at 31st March; and
- other statements and additional disclosures

Supporting this guide we have produced two further documents to support members in discharging their responsibilities

- helping police bodies prepare clear and concise financial statements – see page 11 for further details
- approving the minimum revenue provision

Copies of these are available from your engagement lead and audit manager

### Issue for consideration

- Have members referred to this guidance?

# Accounts – our top issues

## Accounting and audit issues

### Top issues for the 2013/14 closedown

Based on the queries we have received from practitioners and auditors, here is a list of the top issues to consider for the 2013/14 closedown.

1. Do your accounts tell the overall story of the Police and Crime Commissioner's and Chief Constable's financial performance and financial position? Are they clear, concise and easy to follow? Is detailed information on the most important information easy to find? Have duplicated text, non-material notes and zero entries been removed?
2. Are your accounts internally consistent? In particular, does the movement in reserves statement agree to the detailed notes?
3. Is your programme of revaluations is sufficiently up to date to ensure that the carrying value of property, plant and equipment does not differ materially from the fair value at 31 March 2014?
4. Have you accounted for provisions in accordance with IAS 37?
  - Are your provisions the best estimate of the liability (rather than a prudent estimate or an amount that is convenient for budget purposes)?
  - Is there a robust evidence based methodology to support the estimate?
  - Are there any instances in which a provision has not been made because a reliable estimate cannot be made? If so, Is their robust evidence to support the judgement that a reliable estimate is not possible? Has a contingent liability been disclosed?
5. Is your PFI accounting model up to date? Do your accounts disclose:
  - the fair value of PFI liabilities?
  - information on the impact of inflation on PFI commitments?
6. Have you addressed the new accounting requirements in 2013/14 for the presentation of IAS 19 pension costs? Have comparatives been restated?



# Accounts – our top issues

## Accounting and audit issues

7. In the pension accounts, have the following disclosures required by the Code been included that are in addition to those set out in the CIPFA example pension fund accounts:

- the relationship between net assets available for benefits and the present value of promised retirement benefits
- an accounting policy for measurement of assets held at amortised cost.

8. Have all intra-group transactions and balances been eliminated?

9. Have you agreed a detailed closedown plan with your auditors? Does this include:

- how to deal with known major issues?
- a protocol for dealing with new issues as they arise?
- a date for a post-implementation review?

## Issue for consideration

- Has the Chief Accountant considered the closedown issues and assessed the potential impact for your financial statements?

# Emerging issues and developments

## Grant Thornton

### De-cluttering your accounts

Financial statements are an important part of good governance and accountability. But many local authorities, including police bodies, say their financial statements are becoming more complex, harder to prepare and less clear for readers. We believe it is possible to break this trend. In 2012 we published our top ten tips on how to de-clutter local authority accounts. Since then we have worked with authorities across the UK to help them prepare financial statements that are clear and concise. For some, the change has been dramatic with one of our clients successfully halving the length of its financial statements. However, de-cluttering isn't just about reducing the length of the accounts, it is also about making them more readable. Based on this work we have identified five critical success factors.

**Engage stakeholders** - Securing the commitment of the PCC, Chief Constable, senior managers and other stakeholders (including auditors) to the project is essential. Understanding what your stakeholders think of your latest financial statements will help you identify the main areas for improvement.

**Remove immaterial disclosures** - Disclosure notes are only needed for material items or where disclosure is required by statute. Removing immaterial disclosures can have a major impact on the size of your financial statements.

**Remove duplication** - Financial statements often include several disclosures covering the same balances, sometimes resulting in duplication. Merging these notes and disclosing information just once can make the accounts more readable and shorter.

**Re-order** - Many local authorities follow a standard order for their disclosures. Changing the order in which information is disclosed can help give greater prominence to the big issues and make the accounts more readable.

**Use a variety of presentational formats** - Lines of text and lists of numbers may not always be the best way to engage a reader. Financial information is often most effectively presented in tables or graphs. Using a variety of presentational formats can also help you highlight the big issues and maintain the reader's interest for longer.

### Issue for consideration

- Has the Chief Accountant considered how to de-clutter the accounts?

# Emerging issues and developments

## Grant Thornton

### Police reform: a developing picture

In April we published "Police Reform: a developing picture. The report looks at how the sector has responded to the Police Reform and Social Responsibility Act 2011. The report is based the experience gained from working with our broad client base supplemented by a survey of senior people from within the police sector. The report also looked at:

- Police and crime plans, police and crime commissioners' annual reports and police financial statements produced in 2012/13
- Police and crime commissioners' websites and use of social media
- 2012/13 annual governance statements and explanatory forewords of 150 English councils, fire and rescue authorities and police bodies, comparing them to our best practice criteria
- A range of case studies illustrating good practice

The report acknowledges overall progress and outlines opportunities for the sector to develop across the following themes:

**Governance and accountability** – perceptions are that relationships between PCCs and Chief Constables are working well. All agreed that both parties have a shared vision for the next three years. However, respondents did not identify PCCs or chief constables in the top three people responsible for good governance. As the key decision makers and leaders in the sector, their clarity of direction and tone is crucial to the effective development of police governance.

**Partnerships, collaboration and commissioning** – the report highlights the benefits in commissioning services via collaboration and suggests that this is not only about police forces working together, but also closer working with other agencies and organisations. We suggest that there may need to be a shift in attitudes to increase the focus on preventing rather than responding to crime.

**Public communication and commissioning** – local accountability is at the centre of the PCC arrangements. The public needs to have easily accessible, understandable and reliable information. Whilst research suggests that PCCs may not yet meet all of their statutory transparency requirements, PCCs are engaging with the public and many have embraced social media as an accessible and effective way to do this.

### Issue for consideration

- Have the PCC and Chief Executive read the report and considered whether any actions can be taken to improve existing arrangements?

# Working in tandem – Local Government Governance Review 2014

## Grant Thornton

### Local Government Governance Review

This report: <http://www.grant-thornton.co.uk/en/Publications/2014/Local-Government-Governance-Review-2014/> is our third annual review into local authority governance. It aims to assist organisations to assess the strength of their governance arrangements and to prepare for the challenges ahead.

Drawing on a detailed review of the 2012/13 annual governance statements and explanatory forewords of 150 English councils, fire and rescue authorities and police bodies, as well as responses from 80 senior council officers and members, the report focuses on three particular aspects of governance:

- risk leadership: setting a tone from the top which encourages innovation as well as managing potential pitfalls
- partnerships and alternative delivery models: implementing governance arrangements for new service delivery models that achieve accountability without stifling innovation
- public communication: engaging with stakeholders to inform and assure them about service performance, financial affairs and governance arrangements.

Alongside the research findings, the report also highlights examples of good practice and poses a number of questions for management and members, to help them assess the strength of their current governance arrangements.

### Issues for consideration

- Our report includes a number of case studies summarising good practice in risk leadership, partnerships and alternative delivery models and public communication. Has the Authority reviewed these case studies and assessed whether it is meeting good practice in these areas?
- Our report includes key questions for members to ask officers on risk management and alternative delivery models. Are these issues being considered and responded to by officers?

# Emerging issues and developments

## Grant Thornton

### Police Auditors' Group Conference

Grant Thornton are pleased to be sponsoring a Police Audit Committee Chairs Forum as part of this year's Police Auditors' Group Conference which takes place on 16 and 17 July. The event will be facilitated by Linda Duncan, Chair of the MOPAC/ Metropolitan Police Audit Panel. As well as covering other relevant issues, the session aims to explore some of the insights and challenges raised by attendees during Grant Thornton's programme of audit committee seminars in 2013.

Audit committee chairs should have received an invitation from Linda Duncan to attend this event. If not then please contact Irene Lloyd at MOPAC, [Irene.Lloyd@mopac.london.gov.uk](mailto:Irene.Lloyd@mopac.london.gov.uk)

#### Issue for consideration:

- Is the audit committee chair planning to attend this event?
- As an audit committee, what are the things that you would like the chair to explore at this event?

# Events

## Grant Thornton

### Events

We are involved in organising and supporting various events for our local government and police clients including the following.

- Audit Committee seminar (hosted by Gloucestershire Police) on 11 July
- We are sponsoring the Centre for Public Scrutiny (CFPS) annual Scrutiny Camp Unconference in London on 11 June
- We are also sponsoring The Municipal Journal's annual Growth Agenda conference on 4 June where we will be launching our Where Growth Happens report
- For the third year running we are sponsoring the conference drinks reception at CIPFA's Annual Conference, taking place in London on 2 July
- Paul Grady, Grant Thornton's Head of Police, will be speaking at the third Annual National Conference on Police and Crime Commissioners on 10 July, in Nottingham
- We are hosting an Alternative Delivery Models seminar at our Birmingham office in 16 July where practitioners will share experiences of setting up and operating various alternative delivery models.

# Emerging issues and developments

## Other

### Home Affairs Select Committee – Police and Crime Commissioners to date

The report of the Home Affairs Select Committee on the role of Police and Crime Commissioners was published on 5 May 2014. The report concluded that it is too early to say whether the introduction of PCCs has been a success. However, it felt that PCCs have provided greater clarity of leadership for policing within their areas, and are increasingly recognised by the public as accountable for the strategic direction of their police force.

The Select Committee recognised the problems faced by PCCs on taking up post and recommended a transition period for new PCCs of one month between election and formally taking office. This would allow time for intensive training for newly elected PCCs, and a period of transition for post-holders and their teams.

The Select Committee considered the work of PCCs to date and recommended that PCCs and chief constables should prioritise collaboration, particularly where forces were currently carrying out less than 10% of their business this way.

Select Committee recommended that the Home Office amend the powers of PCCs to suspend or remove chief constables by stipulating the grounds on which they may do so. It also recommended that the Home Office should provide guidance to PCCs on the use of their powers in these respects.

The report notes the Government's intention for PCCs to be held to account by the public with police and crime panels providing 'light touch' scrutiny. The report went on to say that due to the low turnout for the PCC elections and, the lack of a formal 'Opposition' between elections, there is a greater emphasis on the role of panels in scrutinising PCCs. There was a recognition that if police and crime panels are to play a stronger role in proactively scrutinising commissioners they need to be resourced accordingly and in a way that is sustainable. It was suggested that more realistic level of funding was required and that such funding should come from the police precept.

#### Issue for consideration:

- The recommendations made in the report are primarily aimed at the Home Office and HMIC. However, have the PCC and Chief Constable reviewed the report and considered whether there are any actions that can be taken to improve existing arrangements?



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